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June 22, 2007

JERRY L. HARPER, Chief Probation Officer
Probation Department
175 West Fifth Street
San Bernardino, CA 92415-0460

SUBJECT: PROBATION DEPARTMENT BIENNIAL FISCAL AUDIT

Introductory Remarks

In compliance with Article V, Section 6, of the San Bernardino County Charter, the Board of Supervisor's Policy Statement 02-02 on Internal Operational Auditing, Internal Controls and Cash Manual, Chapter 2, and Section 275(b) of the Welfare and Institutions Code, we completed an audit of the accounting records relating to Probation Department juvenile trust funds. We also reviewed actions taken by the Department to comply with recommendations made in the preceding audit report dated December 4, 2004. Our audit was conducted in accordance with the standards developed by the Institute of Internal Auditors.

Background

The Probation Department (Department) provides both temporary detention for minors awaiting court hearings, placement, and treatment for minors as ordered by the court. Department has the fiduciary responsibility over variety of monies including monies for coinless phones, fund raising events, and charges for services provided. Department maintains trust funds used for the collection and disbursement of those funds. Account balances ranged from \$200 to \$61,439 for July 1, 2004 through June 30, 2006.

Scope of Audit

The objective of our audit was to determine whether the internal controls over juvenile trust fund receipts and disbursements were effective. Our audit focused on Department's internal controls and processes over cash receipts and disbursements for fiscal years ending June 30, 2005 and June 30, 2006, to ensure compliance with Section 873(g) of the Welfare and Institutions Code. We reviewed the monthly

reconciliations performed by the Department for timeliness, documentation and approval by management. Specifically:

- We reviewed the timeliness of reconciliations of trust funds and petty cash accounts to bank statements.
- We reviewed 80 statistically selected deposits to the trust funds, for timeliness and management oversight.
- We reviewed the validity of trust fund balances.
- We reviewed the validity, supporting documentation, approval and authorization for a statistical sample of trust fund disbursements.

A draft report was sent to the Department on May 14, 2007 and was discussed with management on May 14, 2007. The department's responses to our recommendations are included in this report.

Overall Conclusion

Our audit concluded the internal controls over juvenile trust fund receipts and disbursements were not always effective. Our audited disclosed that internal controls were not always effective to ensure Juvenile Trust Funds were managed in accordance with Welfare and Institutions Code 873 (g).

- The bank statements for eight trust funds and Petty Cash Fund of \$2,900 were not always reconciled monthly.
- Deposits were not timely, for over half of the deposits we reviewed, as required by County policy, and did not have evidence of management oversight.
- Account balances had not been adjusted for nine void checks, which had been outstanding for over a year.
- Control procedures for reimbursements were inadequate, allowing for unauthorized and unapproved reimbursements.

The conditions noted in this report were all similar to the conditions noted in the previous audit report.

FINDINGS AND RECOMMENDATIONS

The specific policies, procedures, and practices that need improvement are discussed below.

Prior Year Finding 1 (January 2003): Bank statements were not reconciled monthly.

Internal Controls and Cash Manual, Chapter 9 – Bank Accounts (August 2005) requires departments to reconcile their records to bank statement each month. Basic controls over reconciliation include independent review to ensure the effectiveness of bank reconciliation. We reviewed monthly reconciliations with related bank statements and year end balances for eight trust funds and a Petty Cash Fund of \$2,900, for timeliness, accuracy and completeness.

- Our audit results indicate that bank statements for eight trust funds and the Petty Cash Fund of \$2,900 were not always reconciled monthly. There were no evidence of supervisory review for the two year period. Account balances ranged from \$200 to \$61,439.
- Project Focus, Sustaining, James T. Kuiper and Regional Youth Educational Facility (RYEF) book balances on Department reconciliation did not always trace to the Department's QuickBooks check register.
- Juvenile Hall bank description of account activity did not always trace to the Department's QuickBooks check register amounts.
- James T. Kuiper Youth Center account, balance \$200; Regional Youth Educational Facility account, balance \$587; and, Sustaining Trust account, balance \$4,246 check registers were not always maintained.

The Department operating personnel stated check registers were not maintained because corrective action was not taken to update and implement reconciliation procedures. When bank reconciliations are not performed timely, accurately and completely errors or the misappropriation of funds may not be detected.

Recommendation 1

The Deputy Chief Department Administrator should:

- a. Update and implement the procedure manual for juvenile trust funds, to include instructions for monitoring trust funds.

- b. Require documented evidence of supervisory review of control activities, and require reconciliation of Department records to bank statement each month.
- c. Consider placing the Treatment Division (\$25,045) and Youth Justice Center (\$44,212) trust funds in an interest bearing accounts, as permitted by Welfare & Institutional Code 873 (g).

Management's Response

"The Department does not agree that this reflects the stated prior findings. Finding One in 1/03 specifically states "For the Special Trust Fund (VCY), the Financial Accounting System (FAS) reports were not completely reconciled to reports from Central Collections". The referenced items pertained to timing/carry-over issues at month end which were not clearly notated on pertinent documents. Further, Prior Finding One in December 2004 recognizes that the reconciliations against Central Collections CUBS reports were being performed with a change in format which was recommended and implemented with approval by the Auditors office."

"There was no audit performed on the VCY account (in FAS) for the 2004-06 time frame."

"The department acknowledges the finding "Bank statements were not reconciled monthly" for the reviewed time frame. Recommendations a and b above will be completed to ensure that bank statements are reconciled monthly. Recommendation c will be investigated to determine its potential for the department."

"In reference to the above bulleted statements:

- Project Focus, Sustaining, James T. Kuiper and Regional Youth Educational Facility (RYEF) book balance on Department reconciliation did not always trace to the Department's QuickBooks check register. "Staff confirmed that the "book balances" for the Focus and Sustaining Trust Accounts did reconcile. Book balances on any given date would include uncleared transactions (detailed on the reconciliation detail report). The major portions of both Kuiper and RYEF accounts were consolidated into a treatment account at the time QuickBooks was set up and would not have had individual QuickBook accounts. Balances were left in each checking account to cover any outstanding checks or costs which may have impacted the remainder of funds. These accounts are now closed."

Auditor's Response

The Department's response of planned monthly reconciliations address the deficiencies noted in the report.

Prior Year Finding 2 (December 2004): Outstanding checks exceeded one year were not voided and bank balances adjusted.

A review of the accounting records for the eight trust funds and a Petty Cash Fund of \$2,900 disclosed nine outstanding checks exceeding 6 months since issue were not voided and bank balances were not adjusted. As of January 31, 2007, the checks were from 342 to 1,104 days old.

The Department operating personnel acknowledged the prior year recommendation to cancel checks exceeding six months from issue and adjusting accounting records, were only partially implemented. The checks were imprinted with "void after 6 months." However, accounting records had not had the appropriate entries to indicate the checks were stale dated.

Recommendation 2

The Deputy Chief Department Administrator should ensure appropriate accounting entries are made to Department trust fund records for voided checks.

Management's Response

"The department concurs with this finding. Procedures have been implemented to correspond with the recommendation."

Auditor's Response

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Current Finding 1: Deposits are not made timely.

Internal Controls and Cash Manual, Chapter 9 – Bank Accounts (August 2005) bank deposit guidelines, monies collected are to be deposited no later than the next business day and supervisors must verify that deposits are intact. We reviewed 80 statistically selected deposits from a population of 252 for timeliness and management oversight.

- Forty-nine (62%) of the sample selection had deposits that were not made the next business day after receipt.
- Sixty-two (78%) of the sample selection did not have evidence of management oversight present.

Department acknowledged at our progress briefing that reoccurring conditions exists because policies and procedures over deposits were not communicated to staff. When cash is left for a long period of time in the safe and there is no monitoring by a

supervisor, in addition to the lack of policies and procedures over deposits, the chance of misappropriation increases.

Recommendation 3

The Deputy Chief Department Administrator should ensure:

1. All the monies collected are deposited no later than the next business day, as required by County policy.
2. All personnel are aware of the County cashiering and deposit policies and procedures.
3. Supervisors review the deposits for accuracy, timeliness and noting their reviews by initials and date of review on deposit slips.

Management's Response

"The department concurs with this finding. Procedures have been implemented to correspond with the recommended changes."

Auditor's Response

The Department's response addresses planned actions to correct deficiencies noted in the finding.

Current Finding 2: Established procedures for Trust Fund Withdrawals were not enforced.

Fiscal Services Administration is authorized to process all written request for reimbursements from trust funds as prescribed in Inter-Bureau Procedure 98-05-46. The employee completes a withdrawal of trust funds request with approval from supervising Department officer prior to submitting to Fiscal Services Administration.

We reviewed 80 statistical selected disbursements from a population of 1,117, valued at \$24,915 for compliance and management oversight. The deficiencies we noted included the following.

- Fourteen (18%) withdrawal request forms were incomplete or not present to support disbursements; ranging from \$40 to \$1,089.
- Sixteen (20%) withdrawal request forms did not have '*Fiscal Services San Bernardino Co. Department Dept. or DCB Fiscal Services*' Department date stamp; ranging from \$30 to \$1,600.

- For nine (12%) record of receipt transactions, the estimates of amount needed for advance or invoice for services were not presented within 7 working days to the fiscal clerk to complete paperwork as required by Inter-Bureau Procedure 98-05-46. Of the nine (9), one advance of \$1,600 was issued on July 2, 2004, receipts were dated July 26, 2004 and receipts returned August 5, 2004.
- Seven (9%) transactions lacked validity of reimbursements, totaling \$890. One instance, a \$150 advance was issued on May 2, 2006 for Cinco de Mayo. The receipts were returned and dated after the event and with no evidence of supervisor oversight.
- Twenty-four (30%) withdrawal request forms did not have Supervising Department Officer, Division Director and Deputy Chief Department Officer signatures necessary to approve and authorize disbursements; ranging from \$147 to \$1,600.
- One (1%) transaction record was not maintained by Department to verify the presence of two authorized signatures or voided check to authorize disbursements. Cancelled check was not furnished for review.
- Three (4%) transactions were missing the roster of attendees to complete the paperwork and authorize disbursements. One of the transactions was for 12 gift certificates valued at \$25 each for total of \$300 that were distributed without supporting documentation.

The Department developed trust fund withdrawal procedures, however established procedures were not followed. The absence of appropriate internal controls and supervisory reviews allows for the misuse or abuse of trust funds.

Recommendation 4

The Deputy Chief Department Officer should ensure established County policies on cash controls and California Welfare and Institutional Code 873 are complied with for disbursements of juvenile trust funds. Also, supervisory personnel should monitor, including documenting the monitoring, disbursement of juvenile trust funds.

Management's Response

"The Department acknowledges the Finding with the following comments for each of the above bullets respectively:

- #1 The department disagrees with the statement "...or not present..." as written authorizations for all disbursement (whether "green", "recurring green", or "IOM Withdrawal of Trust Fund Monies") were included with

each request. It should be noted that the "incomplete" portion of most requests referred to whether the advance or reimbursement box was marked by the submitter. If receipts were attached fiscal staff would be alerted that the request is for a reimbursement. This item will be reviewed.

- #2 Date-stamping the requests is not currently an established written procedure in the department.
- #3 This time frame will be addressed in the procedures revision process.
- #4 The department concurs with this finding.
- #5 The procedure will be updated to reflect two signatures required, and to include at least a Director/Manager approval.
- #6 Check #2293 was present in the reconciliation package and did have two authorized signatures.
- #7 The three transactions identified (four gift certificates transaction) were not for classroom-based activities and therefore rosters were not applicable. These were awards to individuals for which signed documents (by the receivers) were available in the various reconciliation packages at the time of review."

"The procedure manual is in the process of being updated to reflect necessary revisions."

Auditor's Response

At the end of our field work, requested support documentation had not been provided. The Department's response addresses planned actions to correct deficiencies noted in the finding.

Thank you very much for the cooperation extended by your staff during the course of this audit. A follow-up review will be conducted during the next audit cycle.

Respectfully submitted,

Larry Walker
Auditor/Controller-Recorder

By: Howard Ochi, CPA
Chief Deputy Auditor

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